14

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PART 4

MUTUAL SAVINGS BANKS AND BUILDING AND LOAN ASSOCIATIONS

PREPARED BY THE

STAFFS OF THE TREASURY AND THE JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

APRIL 1951

UNITED STATES
GOVERNMENT PRINTING OFFICE
81736 WASHINGTON : 1951

MUTUAL SAVINGS BANKS AND BUILDING AND LOAN ASSOCIATIONS

I. Mutual Savings Banks

A. DESCRIPTION OF THE ORGANIZATIONS

Mutual savings banks perform two basic functions: The encouragement of thirft and the provision of safe and convenient facilities to care for savings. They also have the responsibility of investing the funds left with them so as to be able to give their depositors a return on their savings. Mutual savings banks were originally organized for the principal purpose of serving factory workers and other wage earners of moderate means who, at the time these banks were started, had no other place where they could put their savings.

In keeping with the objective of serving small depositors, limitations were usually placed by the States upon the deposits which any one individual could have in any one bank. Although 8 of the 17 States in which mutual savings banks are located still limit the size of the balance that may be held in any one account, these limits have been rising in recent years. Today, the limit is $7,500 in New York and $5,000 in Massachusetts. In Pennsylvania, a State which does not impose any statutory limitation on the size of deposits, individual banks may take it upon themselves to do so. For example, one of the large mutual savings banks in Philadelphia is understood to have a $30,000 limitation.

Most mutual savings banks were started by groups of civic-minded citizens who put up guaranty funds which were repaid out of subsequent earnings. The organizers appointed boards of trustees to manage the affairs of the banks. The boards of trustees, which are generally self-perpetuating, direct the policies of the banks, subject to the limitations imposed upon them by the laws of the several States in which they operate. The depositors themselves have no voice either in the choice of trustees or in the management of the bank's affairs.

A total of 602 organizations filed information returns with the Bureau of Internal Revenue as mutual savings banks for the year 1946. Most of these organizations were in New England and New York. There were 221 in Massachusetts, with 18.6 percent of the total receipts reported by all of those filing returns. There were 166 in New York, with 55.9 percent of the total receipts of all of those filing returns. The distribution of these returns by States is shown in table I.

Since a mutual savings bank has no capital stock, everything that the bank earns is, in theory, held for the benefit of the depositors. The only means these institutions have of insuring the safety of their depositors' funds has been to build up a surplus out of earnings. It

has long been their practice to set aside a portion of each year's income for this purpose, with the balance of net income being credited to depositors' accounts.

The amounts actually set aside each year and the aggregate size of the surplus accounts are largely determined by the trustees of each individual bank. As shown in table II, most States having mutual savings banks require annual additions to surplus out of earnings until the aggregate surplus reaches a stated percentage of total assets or deposits, varying from 3 percent to 15 percent. Furthermore, the banks themselves appear to have attempted to maintain a ratio of $1 of surplus for every $10 of deposits. That the savings banks as a whole have succeeded in maintaining this ratio is indicated by the fact that, at the end of 1949, the surplus and undivided profits of the 531 active banks in the United States amounted to $2,040 million, as compared with deposits of $19,293 million.

Until recently, most mutual savings banks did not make it a practice to set up specific reserves for their losses, similar to the bad debt reserves used by commercial banks, but generally carried in their surplus accounts the amounts set aside to cover future losses. During the last depression, this had the effect of making their reserve funds unavailable for the very purpose for which they had been retained. Since the banks could use these reserves to cover losses on their loans and investments only if they were also willing to reduce book surplus, and since they assumed that any reduction in surplus would be interpreted as a sign of weakness and would lead to excessive deposit withdrawals, they covered virtually all of their depression losses only as sufficient earnings accrued.

The most recent reports of the mutual savings banks show loss reserves of only $237 million, or 3.4 percent of gross loans and discounts.[1] Of these reserves, $200 million were reported by New York State savings banks. Table III shows by States the total gross loans, loss reserves, surplus, and undivided profits of all the mutual savings banks as of December 31, 1949. It can be seen from this table that in addition to the savings banks in New York, those in New Jersey, Pennsylvania, and Ohio are currently making considerable use of loss reserves. However, they are still relatively unimportant elsewhere.

With respect to outlets for their funds, mutual savings banks are subject to limitations similar to those which apply to other banking institutions. They are not required to make loans only to depositors or members. Currently the bulk of their investments is in United States Government securities and long-term real estate loans.

Until 20 years ago, mutual savings banks invested in selected corporate bonds, such as railroad bonds, as well as real estate loans. During the depression of the thirties the banks took heavy losses on both real estate loans and securities. Although their assets nearly doubled in the period 1930 to 1947, their real estate loan accounts fell from $5.5 billion to $4.9 billion and their holdings of private securities fell from $3.2 billion to $1.7 billion. During the same period their investments in Government securities rose from $152 million to almost $12 billion (table IV).

[1] Annual Report of the Federal Deposit Insurance Corporation for the year ended December 31, 1949, table 105.

The trend toward United States Government securities has been reversed during the last few years, but these securities still represented 53 percent of the assets of the mutual savings banks at the end of 1949.

Deposits of mutual savings banks, like those of commercial banks, may be insured up to $10,000 with the Federal Deposit Insurance Corporation. In addition, a few of the States have their own deposit insurance systems for savings banks. As of June 30, 1950, the deposits in 192 of the 531 mutual savings banks in the country were insured with the FDIC. These 192 banks accounted for over 70 percent of the deposits in all savings banks.

B. PRESENT TAX TREATMENT

Section 101 (2) of the Internal Revenue Code provides that the following organizations shall be exempt from income tax: "(2) Mutual savings banks not having a capital stock represented by shares." This exemption was contained in the Tariff Act of 1913, and has been continued unchanged since that date.

The exemption provided by section 101 (2) has been extended by court interpretation so that it is utilized not only by banks organized under State laws providing for mutual savings banks, but also by various other organizations which have no legal status as mutual savings banks under State law. In the case of *A. C. Investment Association, Unincorporated* v. *Helvering* (1933) it was held that an association of the employees of a company could qualify for exemption as a mutual savings bank even though not incorporated and not operating under public supervision. The association in question was operating in Texas, where individuals could enter the banking business without State supervision. In the case of *The Savings Feature of the Relief Department of the Baltimore and Ohio R. R.* (1935) an unincorporated savings bank not subject to State supervision was held to be exempt as a mutual savings bank even though it received part of its income from the operation of a printing plant. Unlike the A. C. Investment Association, the savings feature actually carried on a substantial part of its operations in a State (Maryland) which had prescribed by statute methods for setting up mutual savings banks—methods with which the savings feature had not complied.

Mutual financial organizations are accorded more favorable treatment than any cooperatives except those specifically exempt in the Internal Revenue Code. All other cooperatives are taxable on income set aside as reserves, whether or not required by State law, to the extent that they are not specifically allocated to the accounts of individual patrons. In the case of mutual savings banks, however, similar unallocated reserves are exempt from tax.

The effect of the exemption has been to relieve mutual savings banks of income tax on the amounts retained as undivided profits and additions to surplus. Since they have increased their surplus and undivided profits by over $800 million since 1940, and by more than $500 million since 1945, it would appear that they have enjoyed substantial tax savings as a result of the exemption (even if allowance is made for the loss reserves which taxable banking organizations are allowed to deduct).

C. PROPOSED TAX TREATMENT

It is proposed that mutual savings banks be taxed as ordinary corporations. Amounts paid to depositors or credited to their accounts would be allowed as deductions in arriving at taxable income. As in the case of other banks, a deduction for amounts to meet losses on loans would be permitted.

The latter deduction would be computed in the same manner as the bad-debt allowance available to commercial banks. Under the formula which has been promulgated by the Commissioner of Internal Revenue for commercial banks, the amount which can be deducted in any one year is computed by determining the ratio of losses to loans over the past 20 years. The Commissioner's ruling limits these reserves to three times the current 20-year average loss ratio.

Upon the initiation of the proposed plan, mutual savings banks would be permitted to accumulate bad d bt reserves without regard to the size of their current surplus or mount of any loss reserves already on their books.

As already noted, a number of organizations not incorporated under State banking laws have been granted exemption as mutual savings banks under section 101 (2). Upon repeal of this section, in the event these organizations cannot obtain exemption elsewhere under section 101, it is recommended that they, like mutual savings banks, be subject to tax.

A number of mutual savings banks have life-insurance departments. While the income of these separate departments is relatively unimportant, it would be treated as any other income of the bank for tax purposes unless the banks incorporate the departments separately, in which case the life-insurance-company treatment would apply.

D. DISCUSSION OF PROPOSED TREATMENT

Mutual savings banks are in the business of borrowing, lending, and investing. They compete with commercial banks, building and loan associations, and life-insurance companies for the public's savings; and they compete in the security and real-estate loan markets.

So long as they are exempt from income tax, the mutual savings banks enjoy the advantage of being able to finance their growth out of earnings without incurring the tax liabilities paid by ordinary corporations when they undertake to expand out of their own resources. The proposed tax treatment of mutual savings banks would place them on a parity with their competitors if they are given adequate tax-free allowances for bad debts.

The mutual savings banks are unique in that they have no stockholders, and are operated by independent boards of trustees who are responsible for the protection of the depositors' savings. Since it is the duty of the trustees to distribute all of the earnings of these banks except amounts necessary to protect the depositors' investment, it is frequently asserted that the banks as such have no income. However, to permit unlimited deduction of reserves merely on the grounds that at some future date such reserves might be required to meet large losses would be the equivalent of allowing a deduction to commercial banks for all contingencies of loss instead of the deduction of reserves for losses which can be reasonably anticipated. To

the extent that the retained earnings exceed a reasonable reserve for losses, mutual banks have income in the same sense as commercial banks.

Depositors are subject to income tax on the income of the mutual savings banks distributed as interest or dividends on deposits. The income retained by the banks without tax does not lose its character as income by reason of the fact that it is not distributed, and it cannot be said to belong to the depositors since they have no legal right to it. While it may be held for the benefit of depositors as a class, it does not belong to them since the trustees of the banks have the power over its management and disposition, and the depositors cannot obtain a share of the undistributed income even if they withdraw their deposits from the bank. The undistributed income of the mutual savings banks is, then, the income of the banks as institutions, and the fact that these institutions may retain their income for the benefit of future depositors (who may or may not include the present depositors) does not relieve the income of its character as income.

It has been suggested that possibly the mutual savings banks should be subject to income tax, but only on that portion of their net income which is in excess of the statutory reserve requirement for mutual savings banks in the particular State. In view of the wide differences in treatment of required reserves by the various States, it would be impractical to allow deduction for income-tax purposes on the basis of the amounts required to be added to reserves. Such a deduction would result in discriminatory tax treatment among mutual savings banks in different States.

The deduction of earnings applied to reserves required under varying State laws would also give the mutual savings banks an unfair advantage over other taxable institutions. The commercial banks, for example, are not allowed such a deduction, although they are also required by State law to meet certain reserve requirements. Even the cooperatives (other than the farm cooperatives entirely exempt under sec. 101 (12) of the code) are not allowed to accumulate reserves tax-free. Although they enjoy distinct tax advantages, the cooperatives are required to pay income tax on the income they keep in reserve and do not allocate to individual members.

The bad-debt reserve formula which has been made available for use of the commercial banks would appear to be suitable in most respects for the mutual savings banks as well. As has already been noted, the bad-debt reserve formula calls for use of a 20-year moving average loss ratio. The loans of a mutual savings bank are usually made for long periods of time, but since the building cycle normally extends over a period of 18 to 20 years, a 20-year average should fairly reflect the loss experience of these banks.

The proposed treatment would tax mutual savings banks on their net earnings after "dividends" to depositors. Although it has been suggested that tax be determined on earnings before "dividends," such a step is considered inappropriate. First, since the depositors regard themselves as creditors of the bank and consider the payments made to them as interest rather than a distribution of profits, the treatment of these payments as true dividends would be inconsistent with the ordinary meaning of this term. Second, if the amounts paid to depositors were taxed as corporate income, the mutual savings banks

would be less favorably treated than commercial banks which are allowed to deduct interest paid on deposits.

Mutual savings banks as a whole have been pursuing rather conservative dividend policies since the early thirties. The continuation of their high retentions after the depression losses had been offset reflects the determination to maintain traditional surplus-deposit ratios in the face of rapidly increasing deposits. Since the bad-debt allowance would be substantially less than the amounts being currently retained by the banks, the banks could increase their dividend payments, thereby minimizing the tax; or they could continue their present policies regarding reserves and pay the tax on retentions in excess of the amounts allowed under the bad-debt formula. In all probability, most banks would pursue a middle course. They would probably continue to retain something more than their allowable bad-debt reserves, but not enough more to require a reduction in their interest payments. In the case of individual banks, policies would presumably be dictated by such considerations as the size of present surplus relative to deposits, the character of assets owned, and the intensity of the competition for savings.

II. Savings and Loan Associations

A. DESCRIPTION OF THE ORGANIZATIONS

Savings and loan associations are financial institutions the primary purpose of which is to encourage thrift and to promote home ownership. These organizations, which also go under the names of building and loan associations, are typically nonstock corporations which secure their funds through the sale of "shares."[2]

Savings and loan associations may be chartered by State banking authorities or by the Home Loan Bank Board. Of the 5,980 associations which were doing business at the end of 1949, 1,508 were Federal associations and the remainder were State-chartered institutions. The former group accounted for $7.1 billion, or nearly 50 percent, of the $14.7 billion of total assets of all the associations (tables VI and VII).

Not all of the earnings of savings and loan associations are distributed in the form of cash or credited to the shareholders' accounts. Some earnings are set aside in various reserve accounts, and some are retained as undivided profits. At the end of 1949, the general reserves and undivided profits of all savings and loan associations in the United States amounted to $1.1 billion. This was over 7.5 percent of the $14.7 billion of private savings invested in these institutions (table VII).

Most of the assets of savings and loan associations take the form of mortgage loans, usually on small residential properties. Thirty years ago, this type of loan accounted for over 90 percent of the assets of these institutions; today, the percentage is somewhat lower, although

[2] Savings and loan associations issue four different kinds of shares. Installment thrift shares are paid for at regular intervals in specified amounts called "dues." Payments are commonly made each month, and under the so-called "serial" plan, fines are imposed if the regular payments are neglected. Optional savings shares permit savers to invest irregular amounts at irregular intervals. Prepaid shares are designed for lump-sum investment in cases where the shareholder wants his dividends to accumulate until his shares reach their principal or maturity value. Full-paid income shares also involve lump-sum investments, but in this case dividends are not permitted to accumulate. They afford a means whereby the holder of matured installment thrift shares may continue his investment in the association.

mortgage loans represented 80 percent of all assets held at the end of 1949.

Savings and loan associations offer borrowers two methods of repaying their loans. The traditional method is the share-accumulation loan under which the borrower subscribes to a certain number of installment thrift shares when he receives the loan. During the life of the loan, the borrower pays interest but makes no payments of principal until the loan matures. At the same time, he makes monthly payments on the installment shares. When the share account has accumulated to the point that it is large enough to match the loan, the two cancel each other out.

The second method, which is known as the direct-reduction loan plan, was first introduced some 40 years ago and is the method most widely used today. Under this plan a borrower typically subscribes for, or purchases, a limited share account; or, in the case of a Federal association, he automatically becomes a member by the mere fact of having been granted a loan. His loan contract usually calls for a fixed monthly payment, part of which is interest and part of which goes to reduce the principal. The interest charge for each month is based on the unpaid balance left after deducting the principal payment of the previous month. Under this plan, therefore, the borrower builds up little or no equity in the association, but his indebtedness to it is steadily reduced.

In the early days of these institutions, the transactions of the associations were confined to members, and no one could participate in the benefits it afforded without becoming a shareholder. Individuals became investing members of these organizations in the expectation of ultimately becoming borrowing members as well. Membership implied not only regular payments to the association for a considerable period of time, but also risk of losses. Members could not cancel their memberships or withdraw their shares before maturity, without incurring heavy penalties. The fact that the members were both the borrowers and the lenders was the essence of the "mutuality" of these organizations.

Although many of the old forms have been preserved to the present day, few of the associations have retained the substance of their earlier mutuality. The steady decline in the proportion of share accumulation loans is evidence that the character of these organizations has changed. More and more, investing members are becoming simply depositors, while borrowing members find dealing with a savings and loan association not very different from dealing with other mortgage lending institutions in which the lending group is distinct from the borrowing group. In fact, because borrowers ordinarily have very few shares, they have very little voice in the affairs of most savings and loan associations.

One characteristic of the earlier mutuality which remains is the absence of capital stock. However, the character of the organization has been modified by the practice of paying more or less fixed rates of return on shares, and of building up substantial surplus accounts to protect shareholders against the risk of losses. Thus the great majority of the 6,000 savings and loan associations that are active today cannot properly be described as mutual cooperative institutions.

B. PRESENT TAX TREATMENT

Section 101 (4) of the Internal Revenue Code provides that the following organizations shall be exempt from income tax:

(4) Domestic building and loan associations substantially all the business of which is confined to making loans to members; and cooperative banks without capital stock organized and operated for mutual purposes and without profit.

This exemption covers three types of organizations: The State-chartered savings and loan associations, the Massachusetts cooperative banks, and the State-chartered credit unions. The Massachusetts cooperative banks are similar to the State-chartered savings and loan associations in other States. The credit unions, while organized somewhat similarly to savings and loan associations, engage in a different type of lending activity and are, on the average, much smaller than the savings and loan associations. The credit unions are not discussed in this report.

Federal savings and loan associations are chartered by the Federal Government. They are exempt from income tax under the Home Owners' Loan Act of 1933, and are covered by subsection (15) of section 101 of the Internal Revenue Code.

The exemption of savings and loan associations was provided in the corporation excise tax of 1909, which exempted "domestic building associations organized and operated exclusively for the mutual benefit of their members." In 1916 the language of the exemption was changed to read, "domestic building and loan associations and cooperative banks without capital stock organized and operated for mutual purposes and without profit." In 1921 the present language of the exemption in section 101 (4) was adopted.

The statutory limitations upon the business practices of State-chartered savings and loan associations have been given a liberal interpretation by the Treasury and the courts.

The Supreme Court had the issue of the definition of an exempt building and loan association before it in *United States* v. *Cambridge Loan & Building Co.* (1928). The Court held the association to be exempt although it received deposits from nonmembers and made loans to nonmembers.

It has been held that a savings and loan association may retain its exemption even though 10 to 12 percent of its loans are to nonmembers. However, an association is not exempt if more than 50 percent of its loans are made to nonmembers (*Employees Industrial Loan Association, Inc.*, (1933)). Where, within this range, an association ceases to meet the requirement that "substantially all" of its business is confined to loans to members is not certain. The extent to which the association obtains capital from nonmembers appears to be a factor in the determination.

In practice, the importance of the definition of "substantially all" is vitiated to a considerable extent because of the ease with which borrowers may qualify as members. For instance it has been ruled that exemption will not be denied for any one of the following reasons: (1) Holders of installment shares (not fully paid for) are not allowed to vote: (2) a majority of the borrowers subscribe to only a nominal amount of stock; (3) an association permits borrowers to qualify as members by subscribing to $1 of stock; or (4) the borrowers do not need to become members until they apply for loans.

Like mutual savings banks, savings and loan associations are

accorded more favorable treatment than any cooperatives except those specifically exempt. As already indicated, all other cooperatives are taxable upon any reserves, whether or not required by State law, which are not specifically allocated to the accounts of individual patrons. In the case of savings and loan associations, similar unallocated reserves are completely exempt from tax.

C. PROPOSED TAX TREATMENT

It is recommended that savings and loan associations, including Massachusetts cooperative banks and Federal savings and loan associations, be taxed as ordinary corporations, specifically allowing, however, a deduction for dividends paid to depositors. These associations would also be allowed to deduct amounts placed in bad debt reserves on the same basis as mutual savings banks.

State-chartered credit unions are also exempt under section 101 (4), and in view of the above recommendations, it will be necessary to rewrite section 101 (4) so that only State-chartered credit unions will remain exempt under that section.

D. DISCUSSION OF PROPOSED TREATMENT

The grounds on which it is proposed to tax savings and loan associations on their retained earnings, after making a reasonable allowance for additions to reserves for bad debts, are the same as those on which the proposal to tax mutual savings banks was based. Moreover, savings and loan associations are no longer self-contained cooperative institutions as they were when originally organized; there is, therefore, relatively little difference between their operations and those of other financial institutions which accept deposits and make real-estate loans.

The principal argument that a savings and loan association does not really have income which could be taxed is based on the theory that both the borrowers and the investors are members of the association and that the interest paid by the borrowers on their loans is really only paid to themselves as members of the association. In other words, it is argued that the mutuality of the borrowing and the investing members is such that no income exists.

The mutuality argument assumes that in the long run, the investments of each member are equal to the debts he has owed the organization. It also assumes that the membership in each organization is fixed and that eventually each member will receive a proportionate share of the accumulated earnings of the organization. These assumptions might have been valid for the original savings and loan associations which terminated after they had fulfilled their purposes for the original membership groups. They are not generally valid, however, for the present-day associations, where investing members may never contemplate becoming borrowers and where the organizations are permanent and a member has no right to a share in the undistributed earnings upon withdrawal.

Another basis on which it is argued that the savings and loan associations do not have income is that all their receipts are either paid out as expenses or as dividends to members or accumulated for the mutual benefit of the members. However, an individual member or depositor has no claim to a share of the accumulated earnings unless he remains

This [illegible] above bad debt reserves [illegible] that State [illegible] bad debt reserves.

in the organization until its dissolution. The idea that income of a savings and loan association belongs to a member even though it is not paid to him or allocated to his account is a more extreme concept of cooperative ownership than that used by the nonfarm cooperatives and the farm cooperatives which are not exempt under section 101 (12) of the Code. While these cooperatives exclude from their gross income for tax purposes amounts which have been allocated to the accounts of their members or which have been used to buy capital stock in the names of their members, they do not contend that unallocated income is not income to the cooperatives.

The income which is added to reserves and undivided profits by the savings and loan associations cannot be treated as income to a member or depositor for income-tax purposes under the doctrine of constructive receipt because the member cannot obtain it unless he remains a member of the association until it is dissolved. It is income of the associations. The fact that it is retained for the benefit of the members makes it analogous to the income retained by an ordinary taxable corporation for the benefit of its stockholders.

It has been suggested that the savings and loan associations should be made taxable only on that portion of their net income which is retained over and above the amounts required to meet statutory reserve requirements. A study of table VIII indicates wide variations in the requirements of the various States with respect to reserves. Seven States and the District of Columbia have no statutory reserve requirement. Most States require some percentage of income to be set aside as a reserve, but the percentages vary from 1 to 10 percent, and they are computed variously on "net earnings," "net profits," "gross profits," "net income," and "interest income," all of which may be defined differently in the different States.

To tax the income of the savings and loan associations but to permit them to deduct income accumulated in reserves in accordance with statutory (or administrative) requirements would result in discriminatory tax treatment of associations in the different States. In addition to the impracticality of permitting a deduction for income allocated to required reserves, it would be inconsistent with the income-tax treatment accorded other types of organizations. Commercial banks do not receive a deduction for income-tax purposes for amounts applied to reserves against depositor liability. The ordinary marketing and purchasing cooperatives (other than tax-exempt farm cooperatives) are not allowed a deduction for the income they do not allocate to individual members.

The reserves of the savings and loan associations are not allocated to the individual members or depositors on any basis.

Like the mutual savings banks, savings and loan associations could presumably be taxed on net income before dividends to shareholders, but for reasons which have already been mentioned, this would seem to be neither necessary nor desirable. The proposed treatment would put savings and loan associations on a comparable tax basis with other financial institutions doing the same kind of business.

III. Revenue Estimates

It is estimated that in a full year of operation the taxing of the retained earnings of mutual savings banks and savings and loan associations will increase revenues by $70 million and $80 million, respectively.

TABLE I.—*Mutual savings banks returns for 1946, by State, and total receipts for 1946, by State*

State	Number of returns	Total receipts	Percent of total receipts, by State
Connecticut	79	$44, 117, 000	6. 1
Maine	26	8, 282, 000	1. 1
Maryland	10	17, 750, 000	2. 4
Massachusetts	221	134, 564, 000	18. 6
New Hampshire	30	9, 078, 000	1. 3
New Jersey	24	18, 032, 000	2. 5
New York	166	405, 646, 000	55. 9
Pennsylvania	10	47, 621, 000	6. 6
All others [1]	36	40, 096, 000	5. 5
Total	[2] 602	725, 185, 000	100. 0

[1] Includes 12 States, each with less than 10 returns.
[2] The difference between this figure of 602 and the figure of 531 presented in testimony before the Ways and Means Committee can probably be accounted for by the fact that organizations have claimed exemption under sec. 101 (2) of the code which are not recognized as mutual savings banks by the National Association of Mutual Savings Banks.

Source: Supplement to Statistics of Income for 1946, pt. 2, compiled from returns of organizations exempt from income tax under sec. 101, Internal Revenue Code, Statistical Division, Bureau of Internal Revenue (October 1949), table 2, p. 16.

TABLE II.—*Statutory reserve requirements for mutual savings banks* [1]

State	Reserve requirements
Connecticut	⅛ percent of deposits semiannually until the surplus equals 3 percent of deposits. Dividends limited to 4 percent per annum until the surplus amounts to 10 percent of deposits. Surplus is limited to 25 percent of deposits.
Delaware	Shall maintain a reserve equal to 7 percent of demand deposits and 3 percent of time deposits.
Indiana	½ percent of deposits annually until the surplus equals 10 percent of deposits. The surplus shall not exceed 25 percent of deposits.
Maine	½ percent of deposits per annum until the reserve equals 5 percent of deposits. Dividends are limited to 5 percent per annum.
Maryland	⅛ percent of deposits per annum until the reserve equals 3 percent of deposits
Massachusetts	⅛ percent but not more than ¼ percent of deposits semiannually until the reserve equals 7½ percent of deposits. An extra dividend of at least ¼ percent shall be declared when surplus and reserves amount to 15¼ percent of deposits.
Minnesota	Reserves are limited to 15 percent of surplus.
New Hampshire	10 percent of net earnings per annum until the reserve equals 5 percent of deposits, except that a bank with less than $1,000,000 in deposits shall at all times keep a reserve of 10 percent of deposits.
New Jersey	Shall maintain a reserve of not less than 3 percent of depos ts and not more than 25 percent of deposits. Whenever surplus amounts to 15 percent of deposits, an extra dividend shall be declared out of the surplus in excess of 15 percent of deposits.
New York	10 percent of net earnings per annum until the reserve equals 10 percent of deposits. Whenever the amount available for dividends exceeds 15 percent of deposits, the excess shall be distributed as an extra dividend if the State superintendent, with the approval of the State banking board, so directs.
Ohio	Shall maintain reserves equal to 10 percent of time deposits and 15 percent of demand deposits. No dividends shall be paid unless the surplus fund equals 5 percent of deposits.
Oregon	5 percent of net earnings until the reserve equals 10 percent of deposits. If the reserve exceeds 10 percent of deposits the minimum dividend shall be 4 percent per annum if the net earnings are sufficient. The rate of dividends shall not exceed 6 percent per annum.
Pennsylvania	Shall maintain a reserve equal to 7½ percent of deposits unless this requirement is increased or decreased by the State banking board. Surplus shall not exceed 25 percent of deposits.
Rhode Island	⅛ percent but not more than ¼ percent of deposits per annum until the reserve equals 5 percent of deposits.
Vermont	⅛ percent of deposits until the reserve equals 10 percent of deposits and other liabilities except surplus.
Washington	5 percent of net earnings until the reserve equals 10 percent of deposits. When the reserve exceeds 10 percent the minimum dividend shall be 4 percent per annum if the net earnings are sufficient.
Wisconsin	12½ percent of net earnings semiannually until the reserve equals 10 percent of the average amount of deposits for the preceding 3 years. "Once in every term of 3 years if the net profits accumulated over and above said guaranty fund and ordinary dividends amount to 1 percent of the deposits which have remained in such mutual savings bank for 1 year next preceding, such net profits may be divided among the depositors whose deposits remain therein for 1 year at least then next preceding as an extra dividend."

[1] As of March 1950.

Source: These data were compiled from information submitted to the Joint Committee on Internal Revenue Taxation by Mr. Fred M. Oliver, general counsel of the National Association of Mutual Savings Banks.

TABLE III.—*Total gross loans, reserves for losses, surplus, and undivided profits of mutual savings banks, Dec. 31, 1949*

[In millions of dollars]

	Total gross loans	Reserves for losses	Surplus	Undivided profits
Maine	49, 096	9	18, 894	13, 275
New Hampshire	111, 200	----------	20, 376	12, 392
Vermont	64, 262	269	493	1, 702
Massachusetts	1, 115, 465	12, 788	206, 260	192, 648
Rhode Island	90, 317	515	22, 925	1, 729
Connecticut	389, 857	5, 273	94, 391	65, 789
New York	4, 387, 121	199, 132	812, 950	277, 988
New Jersey	151, 260	5, 231	58, 486	713
Pennsylvania	115, 810	6, 490	79, 961	4, 184
Delaware	16, 254	----------	2, 300	153
Maryland	55, 965	89	19, 225	27, 524
Ohio	104, 065	4, 622	13, 700	316
Indiana	15, 964	191	3, 225	256
Wisconsin	3, 132	6	1, 014	128
Minnesota	68, 128	2, 313	12, 000	989
Washington	67, 431	12	10, 612	2, 381
Oregon	9, 669	----------	368	237
Total	6, 814, 996	236, 940	1, 437, 198	602, 404

Source: 87th Annual Report of the Comptroller of the Currency, table No. 37, pp. 152–155

TABLE IV.—*Selected balance sheet items of mutual savings banks in the United States for selected years, 1930–49*

[In millions of dollars]

Year	Total assets	United States Government obligations	Real-estate loans	Surplus and undivided profits
1930	10, 295. 3	152. 5	5, 517. 5	1, 053. 5
1935	11, 172. 5	1, 568. 8	5, 240. 2	1, 117. 2
1940	11, 952. 2	3, 122. 9	4, 834. 7	1, 188. 7
1945	16, 987. 1	10, 662. 1	4, 207. 6	1, 535. 0
1947	19, 713. 9	11, 978. 4	4, 855. 1	1, 816. 4
1949	21, 492. 9	11, 428. 1	6, 701. 2	2, 039. 6

Source: Comptroller of the Currency, Annual Reports.

TABLE V.—*Number of active mutual savings banks in the United States for selected years, 1860–1949*

Year	Number of active banks	Depositors	Deposits
		Thousands	*Millions*
1860	278	693. 9	$149. 3
1870	503	1, 902. 0	525. 9
1880	615	2, 335. 6	824. 5
1890	630	4, 258. 9	1, 338. 4
1900	631	6, 107. 1	2, 154. 2
1910	637	9, 142. 9	3, 324. 6
1920	619	9, 445. 3	5, 126. 0
1930	598	11, 895. 1	9, 030. 1
1940	551	8, 414. 0	6, 843. 8
1949	531	----------	19, 293. 4

Source: Comptroller of the Currency, annual reports.

TABLE VI.—*Selected assets and liabilities of savings and loan associations which were members of the Federal Home Loan Bank System, Dec. 31, 1949*

[Dollar amounts in millions]

Items	Total	Federal	State-chartered
Number of associations	3, 822	1, 508	2, 314
Total assets	$13, 278	$7, 104	$6, 174
First mortgage loans	10, 683	5, 679	5, 004
U. S. Government obligations	1, 320	716	604
Savings capital	11, 396	6, 137	5, 259
General reserves	659	328	331
Undivided profits	310	142	148

Source: Home Loan Bank Board, Annual Report, Combined Financial Statements, 1949.

TABLE VII.—*Total number of savings and loan associations and selected financial items for selected years, 1920–49*

[Dollar amounts in millions]

Year	Number of associations	Total assets	Mortgage loans	General reserves and undivided profits
1920	8, 633	$2, 520	(1)	(1)
1925	12, 403	5, 509	$5, 085	(1)
1930	11, 777	8, 829	7, 760	(1)
1935	10, 266	5, 875	3, 949	(1)
1940	7, 184	5, 672	4, 374	$457
1945	6, 149	8, 747	5, 521	645
1949	5, 980	14, 650	11, 700	1, 100

1 Unavailable.

Source: Statistical Abstract of the United States, 1950.

TABLE VIII.—*Statutory reserve requirements for State-chartered building and loan associations* [1]

State	Reserve requirements
Alabama	5 percent of net earnings semiannually until reserve equals 10 percent of capital.
Arizona	5 percent of earnings until reserve fund equals 50 percent of total liability to members.
Arkansas	5 percent of net earnings until the reserve fund equals 5 percent of assets.
California	Shall maintain a reserve of— 10 percent of investment certificate liability up to $1,000,000. 7½ percent of investment certificate liability over $1,000,000 up to $2,000,000. 5 percent of investment certificate liability over $2,000,000 up to $5,000,000. 3 percent of investment certificate liability in excess of $5,000,000 shall also maintain a loan reserve equal to 5 percent of the unpaid principal of outstanding loans.
Colorado	5 percent of net earnings semiannually until reserve equals 10 percent of "invested capital" less permanent stock.
Delaware	A contingent fund for losses and expenses is permitted, but is not mandatory.
District of Columbia	No statutory provision.
Florida	4 percent of gross profits until the reserve equals 10 percent of assets.
Georgia	No statutory provision, but the secretary of state appears to have authority to require reserves by regulation.
Idaho	No statutory provision.
Illinois	Not less than 5 percent and not more than 10 percent of net profits until the reserve equals 7½ percent of the dues capital. Thereafter the reserve shall be not less than 7½ percent and not more than 15 percent of the dues capital.
Indiana	A balance of at least 3 percent of the total liability on outstanding investment stock shall be maintained.
Iowa	2 percent of net earnings semiannually until reserve equals 5 percent of the total amount paid in by members and credited on shares.
Kansas	5 percent of net earnings semiannually until the reserve equals 5 percent of liabilities and capital stock except reserve stock or until the reserve equals 50 percent of the total value of real estate owned, judgments, loans in foreclosure, and real-estate contracts on which there is an unpaid balance in excess of 80 percent of the original sales price, if this is a greater amount.

See footnotes at end of table, p. 14.

TABLE VIII.—*Statutory reserve requirements for State-chartered building and loan associations* [1]—Continued

State	Reserve requirements
Kentucky	1 percent of gross profits until the reserve equals 20 percent of the assets. The director of banking may require other specific reserves at his discretion.
Louisiana	3 percent of net earnings semiannually until the reserve equals 5 percent of the outstanding loans and real estate.
Maine	Not less than 3 percent or more than 10 percent of net income until the reserve equals 5 percent of the capital dues, including advance payments.
Maryland	No statutory provision.
Massachusetts	5 percent of net profits until reserve equals 10 percent of total liabilities. Shall also maintain a reserve of at least 3 percent of its total resources.
Michigan	2 percent of net earnings until the reserve, together with full paid reserve shares equals 10 percent of liability to shareholders.
Minnesota	2 percent of net earnings semiannually until the reserve equals 5 percent of accumulated capital or at least 50 percent of the book value of all real estate owned.
Mississippi	No statutory provision.
Missouri	10 percent of net earnings semiannually until the reserve equals 10 percent of total assets less cash on hand and on deposit, Federal home-loan bank stock, bonds of the State of Missouri, and obligations of, or unconditionally guaranteed by, the United States.
Montana	For permanent or serial associations, 5 percent of net earnings until the reserve equals 5 percent of the book value of the stock.
Nebraska	Except for associations conducted upon the serial plan, 5 percent of net earnings until the reserve equals 5 percent of total assets less cash.
Nevada	$20,000 deposited with the State treasurer, unless an amount not less than $20,000 and equal to 50 percent of its liability invested in real estate or in notes secured by first mortgages or invested in described bonds.
New Hampshire	5 percent of net profits until the reserve is not less than 5 percent or more than 20 percent of total liabilities.
New Jersey	10 percent of net income, less any amount required by the Federal Savings and Loan Insurance Corporation, until the reserve, plus any reserve account required by the Federal Savings and Loan Insurance Corporation, equals 15 percent of total assets.
New Mexico	2 percent of net earnings until the reserve is not less than 3 percent or more than 20 percent of the total assets.
New York	5 percent of net profits until the reserve is 10 percent of capital and 50 percent of the book value of real estate held by the association.
North Carolina	Shall maintain at all times a reserve equal to 5 percent of the paid-up stock outstanding.
North Dakota	5 percent of net earnings until the reserve equals 5 percent of the assets.
Ohio	5 percent of net earnings until the reserve equals 10 percent of the total assets. If the reserve falls below 3 percent of the total assets, no dividends shall be paid until the reserve has been replenished.
Oklahoma	No statutory provision, but the State building and loan board may require specific reserves by regulation.
Oregon	5 percent of the interest income until the reserve is equal to 5 percent of paid-in capital up to $20,000,000, and 2½ percent of paid-in capital in excess of $20,000,000.
Pennsylvania	Not less than 5 percent or more than 20 percent of net profits, unless the State department approves a lesser or greater amount, until the reserve equals 5 percent but not more than 20 percent of the assets.
Rhode Island	2 percent of net profits until the reserve equals 5 percent but not more than 15 percent of the assets.
South Carolina	No statutory provision, but the State board of bank control has a general power to conserve assets.
South Dakota	5 percent of net earnings semiannually, until the reserve equals 5 percent of the assets. Transfers to reserve accounts required by the Federal Savings and Loan Insurance Corporation may be counted toward meeting this requirement.
Tennessee	Any amount the association deems necessary.
Texas	1 percent of the net earnings until the reserve equals 5 percent of the outstanding loans.
Utah	5 percent of net profits until the reserve equals 10 percent of the liability on outstanding stock.
Vermont	5 percent of net earnings semiannually until the reserve equals 10 percent of the capital.
Virginia	Not less than 3 percent or more than 15 percent of net earnings until the reserve equals 5 percent of the total resources. The reserve may not exceed 15 percent of the total resources.
Washington	No statutory provision requiring reserves.
West Virginia	May have a contingent reserve not exceeding 8 percent of the assets and an undivided profit account not exceeding 5 percent of the assets.
Wyoming	5 percent of net earnings until the reserve equals 5 percent of the amount credited to members to which losses may be chargeable.

[1] As of March 1950.

Source: Information supplied to the Committee on Ways and Means in its hearings on the Revenue Act of 1950 by Mr. O. R. Kreutz, executive manager of the National Savings and Loan League.

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